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FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

NORTHWOOD PREPARATORY HIGH SCHOOL

As of and for the Year Ended June 30, 2000

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 1-17-01

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Smith, Huval & Associates, L.L.C.

(A LIMITED LIABILITY COMPANY)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of Northwood Preparatory High School

We have audited the accompanying statement of financial position of Northwood Preparatory High School (a nonprofit organization) as of June 30, 2000 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northwood Preparatory High School as of June 30, 2000, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 1 to the financial statements, the School has incurred a deficit in net assets at June 30, 2000 of \$356,418 relating to disallowments of students by the Louisiana Department of Education. This condition raises substantial doubt about the School's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

An audit was performed for the purpose of forming an opinion on the financial statements of Northwood Preparatory High School. The accompanying supplemental information is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied to the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Smith, Huval & Associates, L.L.C.

December 1, 2000

Northwood Preparatory High School
STATEMENT OF FINANCIAL POSITION

June 30, 2000

ASSETS

Current Assets

Cash and cash equivalents	\$ 132,383
Grants receivable	27,827
Prepaid expenses	<u>1,055</u>
Total current assets	161,265

Property, Plant and Equipment

Furniture and fixtures	54,407
Leaschold improvements	82,818
Equipment	<u>16,994</u>
Total at cost	154,219
Less accumulated depreciation	<u>19,431</u>
Total property, plant and equipment	<u>134,788</u>

\$ 296,053

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 5,961
Accrued expenses	152,890
Current maturity of capital lease payable	14,406
Due to Louisiana Department of Education	406,551
Contingent liability	<u>44,020</u>
Total current liabilities	623,828

Other Liabilities

Capital lease payable	<u>28,643</u>
Total other liabilities	<u>28,643</u>

Total liabilities 652,471

Deficit in net assets (356,418)

\$ 296,053

The accompanying notes are an integral part of this statement.

Northwood Preparatory High School

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2000

	<u>Unrestricted</u>
Support and Revenue	
State public school funding	\$ 1,018,714
Other state funding	72,111
Federal sources	42,295
Investment income	2,183
Other income	<u>7,142</u>
Total support and revenue	1,142,445
Current:	
Instruction:	
Regular Ed programs	641,843
Special Ed programs	84,109
Vocational Ed programs	10,702
Other instructional programs	54,345
Special programs	20,246
Support services:	
Pupil support	85,827
Instructional staff support	9,903
General administration	19,371
School administration	234,292
Business services	38,412
Operation and maintenance of plant	170,591
Pupil transportation	68,841
Central services	15,376
Food service	33,613
Debt service	
Capital lease - interest	<u>11,392</u>
Total expenses	<u>1,498,863</u>
Change in net assets	(356,418)
Net assets - beginning	<u>-</u>
Deficit in net assets - ending	<u><u>\$ (356,418)</u></u>

The accompanying notes are an integral part of this statement.

Northwood Preparatory High School

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2000

Cash Flows From Operating Activities:

Decrease in net assets	\$ (356,418)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities	
Depreciation	19,431
State public school funding disallowment	406,551
Accrual of contingent liabilities	44,020
Increase in grants receivables	(27,827)
Increase in prepaid expenses	(1,055)
Increase in accounts payable	5,961
Increase in accrued expenses	<u>152,890</u>
Total adjustments	<u>599,971</u>
Net cash provided by operating activities	243,553

Cash Flows From Investing Activities:

Purchase of fixed assets	<u>(99,812)</u>
Net cash used by investing activities	(99,812)

Cash Flows From Financing Activities:

Payments on capital lease	<u>(11,358)</u>
Net cash used by financing activities	<u>(11,358)</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS	132,383
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Cash and cash equivalents at beginning of year	<u>-</u>
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Cash and cash equivalents at end of year	<u><u>\$ 132,383</u></u>
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NONCASH INVESTING AND FINANCING ACTIVITIES

During the year ended June 30, 2000, the School entered into a lease accounted for as a capital lease. Cost of equipment leased was recorded as an asset and a capital lease liability in the amount of \$54,407.

The accompanying notes are an integral part of this statement.

Northwood Preparatory High School
NOTES TO FINANCIAL STATEMENTS

June 30, 2000

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Northwood Preparatory High School (the School) was created as a non-profit corporation under the laws of the State of Louisiana on June 19, 1999. The School entered into a Charter School Contract with the Louisiana State Board of Elementary and Secondary Education beginning July 1, 1999 whereby the School would operate a Type II charter school as defined in LSA R.S. 17:3971, et seq. The School serves eligible students in grades ninth through twelfth primarily in the parishes of Tangipahoa and St. Helena.

A summary of the School's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

1. Financial statement presentation

The School follows the guidance of Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. In addition, the School is required to present a statement of cash flows.

The School also follows the guidance of SFAS No. 116, "Accounting for Contributions Received and Contributions Made," whereby contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the donor imposed time or purpose restrictions.

2. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported on the financial statements. The financial statements of Northwood Preparatory High School are prepared on the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

3. Revenues

The School's primary source of funding is through the State Public School Fund. The School receives \$4,673 per eligible student in attendance on October 1, payable in monthly installments. The October 1 student count is audited by the Louisiana Department of Education. Adjustments are made in the following year. As discussed in Note I, a liability has been accrued for students disallowed by the Louisiana Department of Education.

Northwood Preparatory High School
NOTES TO FINANCIAL STATEMENTS

June 30, 2000

NOTE A - (CONTINUED)

3. Revenues - continued

State and federal grants are on a cost reimbursement basis. Accrual is made when eligible expenses occur.

4. Fixed Assets and Depreciation

Fixed assets are recorded at historical cost or estimated historical cost if historical cost is not available. Betterments which naturally add to the value of related assets or materially extend the useful life of assets are capitalized. Normal building maintenance and minor equipment purchases are included as expenses of the School.

Depreciation of fixed assets is calculated using the straight-line method over the estimated useful lives of the assets. Depreciation expense totaled \$19,431 for the year ended June 30, 2000. The following are the estimated useful lives of the fixed assets of the School.

	<u>Useful Lives</u>
Leasehold improvements	5
Furniture and equipment	5-7
Equipment	5-7

5. Income Taxes

The School has applied for recognition by the Internal Revenue Service as a Section 501(c)(3) tax-exempt organization. At the date of our report, the application is pending approval from the Internal Revenue Service.

6. Statement of Cash Flows

For purposes of the statement of cash flows, the School considers all investments purchased with an original maturity of three months or less to be a cash equivalent.

7. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Northwood Preparatory High School
NOTES TO FINANCIAL STATEMENTS

June 30, 2000

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8. Concentration of Credit Risks

Financial instruments that potentially subject the School to concentrations of credit risk consists of cash in excess of federally insured limits of \$108,859.

NOTE B - CASH AND INVESTMENTS

As of June 30, 2000 cash consists of demand deposits in a local bank of \$132,383.

NOTE C - GRANT RECEIVABLE

As of June 30, 2000 receivables consisted of amounts due from following sources:

Special education	\$ 7,675
IASA grants	
Title I	15,430
Title VI	320
Class size reduction	4,233
Other	<u>169</u>
	<u>\$27,827</u>

NOTE D - CAPITAL LEASE OBLIGATION

The School is obligated under a capital lease with a finance company. The total cost of equipment acquired through capital lease is \$54,407. The lease requires 39 monthly payments of \$2,062 expiring on December 27, 2003 with a purchase option of \$1. The future minimum lease payments due under the capital lease are as follows at June 30:

2001	\$ 24,744
2002	24,744
2003	<u>8,248</u>
Total future minimum lease payments	57,736
Less amount representing interest	<u>(14,687)</u>
Present value of net minimum lease payments	<u>\$ 43,049</u>

Northwood Preparatory High School
NOTES TO FINANCIAL STATEMENTS

June 30, 2000

NOTE E - OPERATING LEASE COMMITMENTS

The School leases land and portable buildings under operating leases. The monthly rental for the land is \$3,500 through an initial term ending June 30, 2002. The School has an option to renew lease for an additional two years. The rental for the portable buildings totals \$4,290 monthly with the term ending in August, 2002. At that time, the School may continue rentals on a month-to-month basis. Future minimum lease payments are as follows at June 30:

	<u>Land</u>	<u>Buildings</u>
2001	\$ 42,000	\$ 48,210
2002	42,000	51,480
2003	<u>-</u>	<u>12,870</u>
	<u>\$ 84,000</u>	<u>\$ 112,560</u>

NOTE F - INSURANCE COVERAGE

As of June 30, 2000, the School had the following insurance policies in effect:

<u>Type of Coverage</u>	<u>Expiration</u>	<u>Coverage Limits</u>
General liability	September 16, 2002	Aggregate \$3,000,000 Each occur. \$1,000,000 Injury \$1,000,000 Sexual misconduct \$300,000
Crime	September 16, 2002	Theft \$5,000
Professional liability	September 16, 2002	Aggregate \$3,000,000 Each occur. \$1,000,000 Medical \$25,000
Property	September 16, 2002	Replacement cost 100%
Workmen's Compensation	June 30, 2000	Statutory

Northwood Preparatory High School
NOTES TO FINANCIAL STATEMENTS

June 30, 2000

NOTE G - CONTINGENT LIABILITIES

The School has offered to settle two claims incurred during the year ended June 30, 2000. The following is an explanation of each claim and the status as of the date of this report.

The School received delivery of computers from a local vendor in December, 1999. A lease agreement was tendered by the vendor but was never executed by the School. At June 30, 2000, no payments had been made by the School. The tendered lease agreement required a term of eight quarterly rental payments. The School has offered to pay the vendor \$33,020 which approximates rental payments through June 30, 2000. The vendor has rejected this offer and seeks to enforce tendered lease agreement in full. As in either case, the Schools liability at June 30, 2000 would still be \$33,020. A liability has been accrued at June 30, 2000 for that amount.

During the year ended June 30, 2000, a full-time employee exhausted all of her sick leave due to complications incurred during her pregnancy. The employee did not return to work in the 1999-2000 school year. The employee has filed suit in district court seeking payment of back wages and related benefits. The basis for her claim is related to similar extended benefits offered by the Tangipahoa Parish School Board. The School's charter does not contain any language regarding application of such benefits. The School tendered an \$11,000 offer to settle the lawsuit. This offer was rejected with a counter offer of \$15,600 made by the plaintiff's attorney. The School has rejected the counter offer and intends to vigorously contend the case in court. A liability has been recorded at June 30, 2000 for \$11,000.

NOTE H - ANNUAL FINANCIAL REPORT RECONCILIATION

The School has submitted an Annual Financial Report to the Louisiana Department of Education for the year ended June 30, 2000. The following is a reconciliation between total expenses reported on the Annual Financial Report and total expenses presented in these financial statements.

Total expenses per Annual Financial Report	\$1,645,009
Reconciling items:	
Capitalization of fixed assets	(154,219)
Principal payments on capital lease payable	(11,358)
Depreciation of fixed assets	<u>19,431</u>
Total expenses	<u>\$1,498,863</u>

Northwood Preparatory High School
NOTES TO FINANCIAL STATEMENTS

June 30, 2000

NOTE I - GOING CONCERN

The School's revenues from the State Public School Fund are based on a contracted annual amount per student in attendance on October 1, 1999. For the year ended June 30, 2000, the School received payments based on its student count of 306. Total payments received from the Louisiana Department of Education was \$1,425,265. The Louisiana Department of Education has audited the School's student count and has disallowed 87 students resulting in a liability to the State of \$406,551 and a deficit in net assets at June 30, 2000 of \$356,418.

The liability to the State is expected to be withheld from the School's 2000-2001 State Public School Fund monthly installments beginning in January, 2001 and concluding June 30, 2001. The School's 2000-2001 revenues are based on the previous years unadjusted student count of 306. The School's unaudited student count at October 1, 2000 was 420. This student count is expected to be audited in January or February 2001 by the Louisiana Department of Education. Management expects fewer disallowments in the Louisiana Department of Education's audit of the October 1, 2000 student count due to improved records. It is management's plan that the impact of the 1999-2000 disallowments will be mitigated by the school's increase in enrollment in the 2000-2001 school year and that state funding will not be significantly effected.

As discussed in the Independent Auditor's Report on these financial statements, this condition raises substantial doubt about the School's ability to continue as a going concern. These financial statements have been presented on the basis that the School is a going concern.

NOTE J - RETIREMENT PLANS

Substantially all employees of the School are members of the Teachers' Retirement System of Louisiana. This system is a cost-sharing, multiple-employer defined benefit pension plan administered by a separate board of trustees. Pertinent information, relative to the plan follows:

Teachers' Retirement System of Louisiana (TRS)

Plan Description: The TRS provides retirement benefits as well as disability and survivor benefits. Ten years of service credit are required to become vested for retirement benefits and five years to become vested for disability and survivor benefits. Benefits are established and amended by state statute. The TSR issues a publicly available financial report that includes financial statements and required supplementary information for the TRS. That report may be obtained by writing to the Teachers Retirement System of Louisiana, P.O. Box 94123, Baton Rouge, LA 70804-9123.

Northwood Preparatory High School
NOTES TO FINANCIAL STATEMENTS

June 30, 2000

NOTE J - RETIREMENT PLANS (CONTINUED)

Funding policy: Plan members are required to contribute 8 % of their annual covered salary. The School is required to contribute at an actuarially determine rate. The current rate is 15.2% of annual eligibile covered payroll. Member contributions and employer contributions for the TRS are established by state law and rates are established by the Public Retirement System's Actuarial Committee. The School's contributions to the plan for the year ended June 30, 2000 was \$104,461, equal to the required contribution for the year.

NOTE K - FIXED ASSETS

Depreciation expense for the year ended June 30, 2000 was \$19,431.

All assets acquired with Department of Education funds are owned by the school while used in the purpose for which it was purchased. The Department of Education, however, has a reversionary interest in these assets. Should the charter not be renewed, title in any assets purchased with those funds will transfer to the appropriate agency.

NOTE L - CONCENTRATION OF FUNDS

The organization receives almost all of its funding from the State of Louisiana.

SUPPLEMENTAL INFORMATION

Northwood Preparatory High School
SCHEDULE OF BOARD OF DIRECTORS

June 30, 2000

BOARD MEMBERS

COMPENSATION

Ivy Alford, Secretary
505 East St. Thomas
Hammond, LA 70401
504-429-9542

-0-

Phil Calvin, President
17757 Rising Fawn Dr.
Amite, LA 70422
504-747-3470

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Bernell Cook
1335 3th Street
Kentwood, LA 70444
504-229-8145

-0-

Ples Jennings, Vice-President
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504-748-5918

-0-

Ann Magnuson
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Hammond, LA 70403
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Mike Saucier
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504-386-5657

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Nakita Robertson
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Certified Public Accountants

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
of Northwood Preparatory High School

We have audited the financial statements of Northwood Preparatory High School (a nonprofit organization) as of and for the year ended June 30, 2000 and have issued our report thereon dated December 1, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Northwood Preparatory High School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the following paragraph.

The School's Charter School Contract requires that 75% of its teachers maintain state certification. During the year ended June 30, 2000, only 39% of the School's teachers held certification under state guidelines.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Northwood Preparatory High School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

To the Board of Directors
of Northwood Preparatory High School

This report is intended solely for the information of management, the Board of Directors, the Louisiana Legislative Auditor and the Louisiana Department of Education and is not intended for and should not be used by other than those specified parties.

December 1, 2000

Smith, Heval & Associates, L.L.C.